



Welcome
To
The 2010 1099 Training
Presented By The





OSC Contacts

Joyce Miller 303 866-3816 – joyce.miller@state.co.us

Valerie Smith 303 866-3348 - valerie.smith@state.co.us

Gini Powers – 303 866-2126 - gini.powers@state.co.us



1099 Training Objectives – Learn:

1. The Basics
2. IRS Filing Deadlines / Penalties
3. The Keys to 1099 Compliance
4. Reportable Payments
5. Reportable Payees
6. Overview of the COFRS 1099 Reporting Subsystem
7. What's New



What are 1099s?

- 1099s are a Type of Information Return
- There are many different types
 - 1099-Misc 1099-INT, W-2, W2G, 1098

What is their Purpose?

- Recipients use them to accurately report their income
- The IRS matches the amounts we report to the taxpayer's income tax returns
- They promote compliance with **IRS** Regulations



Who Must File?

- Everyone who makes payments in the course of a trade or business
- Even tax exempt entities – like the State of Colorado - must file 1099s for payments made in the course of their trade or business
- **Nominee/middleman returns.** Generally, if you receive a Form 1099 for amounts that actually belong to another person, you must file 1099s to the owner of the income



When to File?

- Postmark recipient's forms no later than Jan 31*
- Transmit electronic file to IRS no later than March 31*
- File first set of corrections within 30 days of March 31*
 - COFRS first Correction process April 22
 - To the IRS on or prior to April 29th
 - * unless those dates fall on a weekend or holiday – then the deadline is the next business day



How to File?

- The State must file electronically
- 1099 corrections filed electronically
- We file one 1099 for each vendor with a statewide total summarized in each box
- We list all agencies that contributed to the total at the bottom of our Substitute Form
- The 1099 Helpline phone number 303 866-4090 is printed on each form
- This year we will mask all but the last 4 digits of SSNs



Which Forms are Filed?

- OSC files only Forms 1099-MISC and 1099-INT (interest) for payments made through COFRS
- Dept of Revenue files Forms 1099-G (government) for tax refunds
- Dept of Labor & Employment files 1099-G for Unemployment Insurance payments
- Agencies file Forms 1099-S for Right- of-Way payments
- Lottery files W2Gs for Lottery winners



What is the 1099 Reporting Criteria?

1. Only payments made in the course of a trade or business; **AND**
2. Only reportable payments to Reportable payees; **AND**
3. Only when payment amount threshold is met

We only issue 1099s when all the criteria is met



What is a TIN?

A TIN is a Taxpayer Identification
Number

- SSN = Social Security Number
- EIN = Employer Identification Number—also referred to as FEIN
- ITIN = Individual Taxpayer ID Number

Starts with 9 has 7 or 8 in the 4th digit

- Does Not Authorize Work in the US



What is a TIN Type?

- EIN = TIN Type 1
- SSN = TIN Type 2
- ITIN = TIN Type 2

- Used By IRS to Match Names and TINs



Why Worry about Compliance?

Penalties!

- Section 2102 of the Small Business Jobs Act of 2010 increased penalties for failure to file information returns, failure to furnish correct payee statements, and for intentional disregard of the law.
- See Handout: Increase In Information Return Penalties
- A payer receiving a proposed penalty notice may dispute the assessment under the “reasonable cause” standard.



What are the Keys to Compliance?

- OSC - TIN Matching
- Agency - Obtain a Form W-9 and review it for errors
- Agency - Add VEND records correctly
 - TIN, Name, Address, Entity Type, W-9 fields, 1099 Y or N, and TIN Type are all important



Cont. - What are the Keys to Compliance?

- Agency - Enter 1099 Reportable Yes or NO correctly
- Agency - Code payments correctly so required payments are included in vendor income
- OSC and Agency - Meet COFRS processing and IRS filing deadlines



IRS 1099 Mismatches

- The IRS matches reported 1099 information with IRS and Social Security Files.
 - First they verify that the TIN is currently issued
 - If the TIN is currently issued, they match it against Name Controls
 - TIN Type determines which file the TIN is matched against
 - TIN Type 1 = EIN -- TIN Type 2 = SSN
 - If mismatched – We are must backup withhold



Keys to Compliance - TIN Matching

- OSC matches all new MV records each morning
- Mismatches are put on HOLD with appropriate comment
- IRS Match results are uploaded to COFRS
 - COFRS populates the REPT 1 field with
 - 2 – TIN Not Currently Issued
 - 3 – TIN/Name Combination Does Not Match IRS
 - 6 – TIN Matches – It is an SSN
 - 7 – TIN Matches - It is an EIN
 - COFRS Populates the VENDOR VALIDATION TABLE (VVAL) table



More Keys to Compliance - TIN Matching

OSC tries to perfect mismatches by re-matching

- Look for obvious misspelling
- Re-match with DBA name
- Research acronym/legal Name on Sec of State
- Search VNAM for matching name w/ different TIN



IRS 1099 Mismatches

- Tin Matching has made a huge difference in the number of mismatches reported to the IRS
 - 14,750 1099s Issued
 - 6 Mismatches



Keys to Compliance - Forms W-9

- Agency must obtain a W9 prior to adding a Master Vendor
- Only need one W-9 per TIN
- IRS W9 Instructions now say that we can require a signature
- OSC puts Master Vendor (MV) records without a “V” in the W9 field on HOLD
- By entering a V, you are verifying that your agency has a W9 and can produce it if required



Keys to Compliance - Forms W-9

- The master vendor (MV) W9 tracking fields on VEND must be correctly filled
- The W9 must be available to establish a “Reasonable Cause”
- Agency adding a (MV) must retain W9s as long as the record is on VEND
- OSC only keeps W9s requested for backup withholding, not agency W9s sent to document vendor file changes



Keys to Compliance - Forms W-9 Review

- The legal name provided on the W9 must be consistent with the entity type
- Exception: If a sole prop provides the business name, but legibly signs the W9 with the owner name and enters the title as owner, keep the W9, but enter the owner's name as the legal name on VEND
- Legal name for sole prop and Single member LLC is the owner's first and last name, the business name goes on the DBA line.
- The taxpayer identification number (TIN) must be consistent with the entity type



Keys to Compliance - Add VEND Records Correctly

- TIN Type field: 1=EIN and 2=SSN
- Don't abbreviate the first word of the name
- The only acceptable punctuation in the name field is a comma between last and first name, the only special characters that the IRS allows for 1099 reporting are & and – (dash).



Keys to Compliance -- Add VEND Records Correctly

- Which Vendors are Reportable ?
- All are reportable *except*
 - Governments,
 - Tax Exempt, and
 - Corporations that DO NOT provide Medical or Legal Services
- See Handouts: *Valid Entries to VEND by Entity Type* for allowable combinations of entries in the TIN Type, Entity Type, and 1099 fields.



Tax Exempt Entities – 1099 N

- Tax exempt vendors may be added to VEND as 1099 NO. Be aware that Non Profit and Tax Exempt are not the same thing. Non profit organizations have to apply for tax exempt status with the IRS.
- Verify an organization's tax-exempt status by asking for a copy of the organization's IRS determination letter recognizing it as tax-exempt. You can also confirm an organization's status by calling the IRS (toll-free) at 1-877-829-5500.
- See Handout: *Tax Exempt Entities*



Keys to Compliance - Code Payments Correctly

- Which payments are reportable?
- Reportable object codes are defined on the COFRS OBJT table
- See Handout: *1099 Reportable Payments Chart By 1099 Form, Box Number, And OBJT*



Reportable Payments-Rents

Box 1 - \$600 or more for [all types of rent](#), real estate, office space, machine, pasture, hotel and banquet rooms

Payments to owners of coin operated amusement, refreshment, video games, etc., see rev rule 92-49



Reportable Payments - Royalties

Box 2 - \$10 or more- Book and Music, Software Licenses

Do not report surface royalties in Box 2 – report them in Box 1

Do not report oil & gas payments for a working interest in box 2, report in box 7

Do not report pay-as-cut Timber Royalties in box 2, report on Form 1099-S



Reportable Payments - OTHER

Box 3 - \$600 or more

Prizes and awards

Certain Settlements – See OCS Website for taxable
Settlements

Jury Pay, Deceased Employee Payments

Honoraria, Board Members Compensation

Other Payments Not Subject To Self Employment Tax



Reportable Payments – Medical and Health Care Payments

Box 6 - \$600 or more

Includes Corporations,

Does not include payments to pharmacy for prescriptions

Includes whole hospital bill

Dentist bills including dentures etc

Includes veterinary care and mental health care



Reportable Payments – Nonemployee Compensation

Box 7 - \$600 or more

- All Services, Professional Fees, Attorney Fees (unless Gross Proceeds)
- Accountants, Expert Witnesses, Commissions, Independent Contractor pay
- Contractor travel may be included, but is not required
- Payments for services *including* materials when incidental to providing the service
- Income reported in Box 7 is usually subject to self employment tax



Reportable Payments – Gross Proceeds to Attorney

Box 14 - \$600 or more

See OSC Web Site – Authoritative Guidance

Taxable Reporting for Settlement Agreements

Payments to Attorney Trust Funds

- Only one Object Code - 4118



Reportable Payment Exceptions

- Payments for merchandise, telegrams, telephone, freight, storage, utilities and similar items, internet;
- Fees paid to informers by governments;
- Taxable scholarship or fellowship payments -See Notice 87-31, 1987-1 C.B. 475, and Regulations section 1.6041-3(n) for more information.



No 1099 Is Needed

Certain payment card transactions if a payment card organization has assigned a merchant/payee a Merchant Category Code (MCC) indicating that reporting is not required.

A cardholder/payor may rely on the MCC assigned to a merchant/payee to determine if a payment card transaction with that merchant/payee is subject to reporting under section 6041 or section 6041A.

For more information and a list of merchant types with corresponding MCCs, see Revenue Procedure 2004-43 available at www.irs.gov/irb/2004-31_IRB/ar17.html

Questions – Gray Areas?



1. Payments to Employees – Is it Ever OK?
2. Contractor Travel and Other Expenses – Report or Not?
3. LLC – What is Legal Name/TIN? Frequent Mismatches
4. Assignment of Income - Who Gets the 1099?
5. When is Retainage Reported?
6. Custom Printed Shirts – Service or Mdse?



IRS CP2100 Notice – Rec'd in October

1. Lists all TIN/Name filed for previous year 1099s
2. 2009 1099 BWH list rec'd Oct 2010
3. Required to send a B-Notice within 15 business days – start BWH in 30 business days
4. OSC puts the records on HOLD until a Certified (signed) W-9 is received
5. To avoid backup withholding we leave on HOLD until corrected.



What is Backup Withholding?

1. Withholding income taxes at the time of payment from reportable payments and reportable payees and reporting and depositing those withheld taxes.
2. Current Backup withholding is 28 %.



When is it required?

1. A reportable vendor refuses to provide a TIN for a reportable payment
2. The State has been notified by IRS of an incorrect TIN/Name combination for the vendor on CP2100 Notice
3. IRS Notice of Under reporting by Vendor



Backup Withholding Penalty

The penalty for failure to backup withhold is the amount which should have been withheld – currently 28% of the payment.

Legislative and Regulatory Developments

Payment Card Providers Reporting Statute - Housing Assistance Tax Act P.L. 110-289 **Sec. 6050W**

- Effective for payments made in 2011
- For 2010 reportable card transactions are filed as usual on Forms 1099-MISC
- For 2011, only card companies will file 1099s for payment cards (new 1099-K)
- For 2012 payments the state will only file 1099s for payments over \$10K and will be required to withhold 3% under sec. 3402t

Information Reporting for Payment Card

| 2010 | 2011 | 2012 |
|---|--|---|
| <ul style="list-style-type: none"> ▪ Report as in the past ▪ B Notices for 2009 | <ul style="list-style-type: none"> ▪ 6050W <ul style="list-style-type: none"> • Card Companies MUST file Form 1099-K ▪ No Business or Government reporting on Form 1099-MISC for card transactions ▪ B Notices for 2010 transactions | <ul style="list-style-type: none"> ▪ 6041-Expanded reporting on payments to corporations and for merchandise for non card payments ▪ 3402t -3% withholding and reporting on Form 1099-MISC for government entities only ▪ Non-governments using cards have no IRS Form 1099-MISC filing requirements |

Health Care Legislation & Expanded Sec. 6041- effective 2012

- Recently passed health care legislation repeals the long time exceptions under section 6041 for **payments to corporations** and **payments for merchandise**
 - Attempts to modify or repeal these changes have failed so far
- Effective January 1, 2012, these additional payments will need to be reported, increasing the number of returns filed several fold
- Costs will increase dramatically
 - Postage

Health Care Legislation & Expanded Sec. 6041- effective 2012

Requires, for the first time, reporting other than in the course of a trade or business.

Landlords who receive rental income must issue 1099s for services

Tax Increase Prevention & Reconciliation Act of 2005 Public Law 109-222 Sec. 3402(t)

- TIPRA Sec. 3402(t)
- Who is subject?
 - Federal, State, and large local governments are required to withhold 3% from each payment over \$10,000
 - whether paid by cash, check, or card, to all entities except governments and tax exempt entities
 - for goods and services)

Tax Increase Prevention & Reconciliation Act of 2005 Public Law 109-222 Sec. 3402(t)

RECIPIENTS

- Payments to all of the following are subject to the 3% withholding:
- Individuals
- Trusts and Estates
- Partnerships
- Associations
- Corporations
- Requirement applies to payment in any form (cash, check, credit card, etc.)

Tax Increase Prevention & Reconciliation Act of 2005

Public Law 109-222 Sec. 3402(t)

EXCEPTIONS

The 3% withholding requirements do not apply to payments:

- Otherwise subject to withholding
- For retirement benefits, unemployment compensation, or social security
- Subject to backup withholding, if actually performed
- For real property

Tax Increase Prevention & Reconciliation Act of 2005 Public Law 109-222 Sec. 3402(t)

EXCEPTIONS (Continued)

- For interest
- To other government entities, foreign governments, or Indian tribes
- Made under confidential or classified contracts under IRC 650M(e)(3)
- Made by a political subdivision of a state if the subdivision makes less than \$100 million in annual payments

Tax Increase Prevention & Reconciliation Act of 2005 Public Law 109-222 Sec. 3402(t)

EXCEPTIONS (Continued)

- Public assistance, made on the basis of need or
- income (but programs based on age (i.e.
- Medicare) are included
- To employees in connection with service, such as retirement plan contributions, fringe benefits, expense reimbursements
- Received by nonresident aliens and foreign
- Made by Indian tribal governments
- Made in emergency or disaster situations

Impact on Card Users

- 2010 Governments and non governments file 1099-MISC for reportable card transactions
- 2011 Governments and non government card users are relieved of filing Forms 1099-MISC for any card transactions, and of doing any backup withholding for them after 2010
 - These card clients will still need to deal with filing errors, B Notices and Penalty Notices for the 2010 filing season through 2012
- 2012 - Both government and non government card users file Forms 1099-MISC to additional vendors for goods AND services for non card payments \$600 or more - making the use of cards even more desirable
- 2012 - Governments start to withhold 3% of payments over \$10K and report on 1099 whether paid by card or otherwise unless an exemption applies.

COFRS 1099 Reporting Subsystem Information

COFRS Subsystem Criteria for issuing Form 1099

- Four things must happen for the COFRS 1099 Reporting Subsystem to produce a Form
 1. Must be 1099 reportable on VEND
 2. 1099 reportable object code must be used
 3. A Master Vendor Record for the TIN must exist on VEND
 4. The statewide total paid must be \$600 or more

Two Ways to Get Data Into the 1099 Reporting System.

- System accumulates PV,CR,JV transactions in the COFRS General Ledger
- Transactions entered manually using COFRS 99TX and 1099 Tables.
- General Ledger transactions through December 30 are included -- not December Close

Using a JV to correct 1099 Info

- JV affects GenLed, the info is picked up on T9902R Reports – much better audit trail.
- **JV must be accepted in SUSF by Dec. 30**
- We read the December General Ledger on Dec 30 --before December closes.
- JV can be used for all transactions, even past FY.
- JV be used to add or change object code, to change TIN, or amount.

Using 99TX and 1099 Tables to Manually Adjust Vendor \$, TIN

- 99TX is the audit trail. 1099 Table provides data that will print income type and amount on form.
- Must use both tables, 99TX first, to make adjustment.
- Income adjustments made on these tables are not reported on T9902R reports.

99TX Example to Adjust Income

(99TX must be added before the 1099 Table Entry)

ACTION: **A** SCREEN: 99TX USERID: \$DF66 11/28/10 10:31:21 AM
H- 1099 TEXT TABLE
KEY IS YR, RETURN TYPE, AGENCY, TAXPAYER ID, INCOME TYPE, TEXT LINE.

YR: **10** RETURN TYPE: **A** AGENCY: **ACA** TAXPAYER ID: **543211234**
INCOME TYPE: **1** VENDOR NAME: COSTNER, KEVIN

| | | |
|------|---|-----|
| 01- | <u>030110 PV 020000402 4196 273.00</u> | 001 |
| 02- | <u>TOTAL MISAPPLIED AMT 273.00</u> | 003 |
| 03- | <u>Miscoded to Balance Sheet Account</u> | 005 |
| 04- | | |
| 05- | | |
| 06- | | |
| 07- | | |
| 08- | | |
| 09- | | |
| 04-* | L009 HEADER CHANGE | |
| | 12/20/2010 | |

1099 Table Example

ACTION: C SCREEN: 1099 USERID: \$DF66

11/28/10 10:38:29 AM

VENDOR 1099 TABLE

KEY IS CALENDAR-YEAR, RETURN-TYPE, AGENCY, TAXPAYER ID, INCOME TYPE

YR: 10 RETURN TYPE: A AGENCY: ACA TAXPAYER ID: 543211234

VENDOR NAME: COSTNER, KEVIN

| INCOME TYPE | VENDOR INCOME AMT | MISAPPLIED AMT | OUTSIDE PAYMENT |
|-------------|-------------------|------------------|-----------------|
| ----- | ----- | ----- | ----- |
| | RPT IND | 1099 AMT REVISED | ADJUSTED 1099 |
| | ----- | ----- | ----- |
| 01- 1 | 546.00 | 273.00 | 0.00 |
| | N | 0.00 | 819.00 |
| 02- | | | |
| 03- | | | |
| 04- | | | |
| 05- | | | |

02-1009 *1009 HEADER CHANGE
12/20/2010

1099 Retention/Approx 4 Yrs

OSC Keeps

- IRS Transmittal Documents, B-Notices
 - Copies of IRS Original, Correction, and Replacement Electronic Files
 - Statewide Payment Detail

Agencies Keep

- Payment Source Documents /Forms W-9

The End

- *Please Leave Your Evaluations*
- *Thank You All Very Much for Coming Today!*